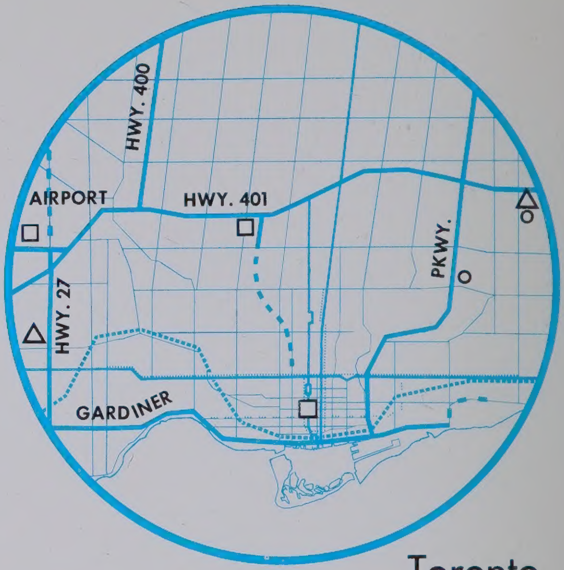
# COMMONWEALTH Holiday Inns OF CANADA LIMITED



ANNUAL REPORT '68

North-western Ontario
Kenora
Fort William
Port Arthur

HWY. 400
AIRPORT
HWY. 401
PKWY.
HWY. 27
GARDINER


Toronto

Ottawa
Ontario
Toronto
Michigan
London
Pontiac
Inns in Ontario
OPEN
Fort William-Port Arthur
Windsor
Chatham
London, South
London, Downtown
Kitchener
Brantford
Hamilton
St. Catharines
Oakville
Toronto West
Toronto, East
Barrie
Huntsville-Hidden Valley
Peterborough
Kingston
Ottawa
UNDER CONSTRUCTION
Toronto Flemingdon Park
Toronto East Addition
Kenora
Hespeler—Galt
PLANNED
Sault Ste. Marie
North Bay
Sarnia
Toronto Downtown
Toronto Yorkdale
Toronto Airport
Oshawa
Belleville
Ottawa Downtown
Sudbury
Kingston Addition
St. Catharines Addition
Inns in Michigan
OPEN
Pontiac
Port Huron
PLANNED
Pontiac Addition

**Commonwealth Holiday Inns of Canada Limited**

# Annual Report 1968

## Contents:



REGISTRAR AND TRANSFER AGENT

The Registrar for the Common Shares and the Convertible Preference Shares is Canada Permanent Trust Company at its principal offices at Toronto, London, Winnipeg, and Vancouver. The Transfer Agent for the Common Shares and the Convertible Preference Shares is The Royal Trust Company at its principal offices at Toronto, London, Winnipeg and Vancouver.

## DIRECTORS

**Frank Wilson Adams**
Senior Vice President
Holiday Inns of America, Inc.
MEMPHIS, Tennessee

**Ludwick Mosyne Clymer**
Senior Vice President
Holiday Inns of America, Inc.
MEMPHIS, Tennessee

**Ernest Bernard Fletcher***
Executive Vice President
and General Manager
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

**Frederick William Pryce Jones***
Professor, School of Business
Administration
University of Western Ontario
LONDON, Ontario

**David Rubinoff***
President
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

**Albert Edwin Shepherd, Q.C.***
Barrister and Solicitor
Partner of Shepherd, McKenzie,
Plaxton, Little & Jenkins
LONDON, Ontario

**David Black Weldon***
President
Midland-Osler Securities Limited
LONDON, Ontario

**Richard William Yantis**
Director
Avco Corporation New York,
Avco Delta Corporation New York,
Avco Delta Corporation Canada Ltd.

*Member of the Executive Committee

DAVID RUBINOFF
President and Director

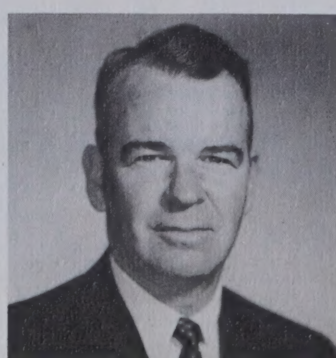
ERNEST BERNARD FLETCHER
Executive Vice President and
General Manager—Director

ALBERT EDWIN SHEPHERD, Q.C.
Senior Vice President
and Director

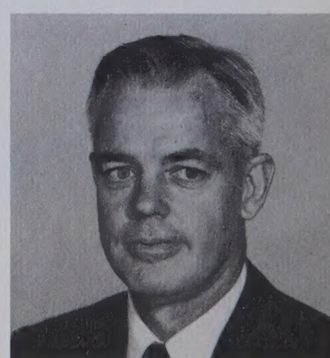
DAVID BLACK WELDON
Director

RICHARD WILLIAM YANTIS
Director

FREDERICK WILLIAM PRYCE JONES
Director



LUDWICK MOSYNE CLYMER
Director



FRANK WILSON ADAMS
Director

## OFFICERS AND EXECUTIVES

**David Rubinoff**
President

**Ernest Bernard Fletcher**
Executive Vice President
and General Manager

**Albert Edwin Shepherd, Q.C.**
Senior Vice President

**Andre Robert Pettigrew**
Vice President (Finance)
and Treasurer

**Edward Christopher Campbell**
Vice President (Senior
Administrator of Operations)

**Robert Allen Rubinoff**
Vice President, Executive Director
of U.K. Operations

**Philip Eprile**
President, Associated Innkeepers
Supply Company

**Raymond R. Yelle**
Vice President—Caribbean
Finance and Development

**Charles Hamilton King**
Secretary

**Jeanette Mary Stevens**
Assistant Secretary

**Hans Demuth**
Assistant Vice President and
Director of Food and Beverage

**Raymond T. Domenico**
Assistant Vice President and
District Director

**James A. Havers**
Assistant Vice President and
District Director

**Ward B. Morrison**
Assistant Vice President and
Controller

**John B. Pleasence**
Assistant Vice President and
District Director

**Theodore Smits**
Assistant Vice President, Director
of Construction and Maintenance

**John C. Logan**
Director, Projects Development

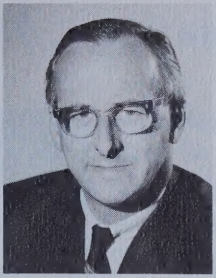
**Willis G. McNeilly**
Director of Marketing

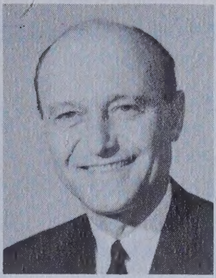
**Thomas R. Noonan**
Director of Caribbean Operations

**T. Robert Torrance**
Director of Personnel

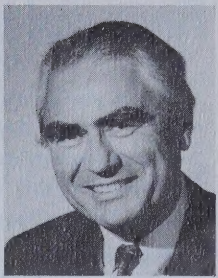
**Philip M. Barnett**
General Manager, Associated
Innkeepers Supply Company

**John S. Harrington**
Director, Contract Sales
Associated Innkeepers Supply
Company


ANDRE R. PETTIGREW
Vice President (Finance)
and Treasurer


EDWARD C. CAMPBELL
Vice President (Senior
Administrator of Operations)


ROBERT A. RUBINOFF
Vice President, Executive Director
of U.K. Operations


PHILIP EPRILE
President, Associated Innkeepers
Supply Company


RAYMOND R. YELLE
Vice President—Caribbean
Finance and Development


CHARLES H. KING
Secretary


JEANETTE MARY STEVENS
Assistant Secretary


HANS DEMUTH
Assistant Vice President and
Director of Food and Beverage


RAYMOND T. DOMENICO
Assistant Vice President and
District Director


JAMES A. HAVERS
Assistant Vice President and
District Director


WARD B. MORRISON
Assistant Vice President and
Controller


JOHN B. PLEASENCE
Assistant Vice President and
District Director


THEODORE SMITS
Assistant Vice President, Director
of Construction and Maintenance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Director, Projects Development


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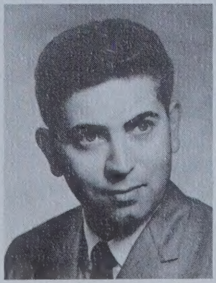
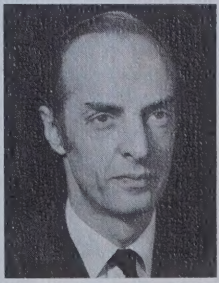
Director of Marketing


THOMAS R. NOONAN
Director of Caribbean Operations


T. ROBERT TORRANCE
Director of Personnel


PHILIP M. BARNETT
General Manager, Associated
Innkeepers Supply Company


JOHN S. HARRINGTON
Director Contract Sales
Associated Innkeepers Supply
Company

# Financial Highlights YEAR ENDED OCTOBER 31st

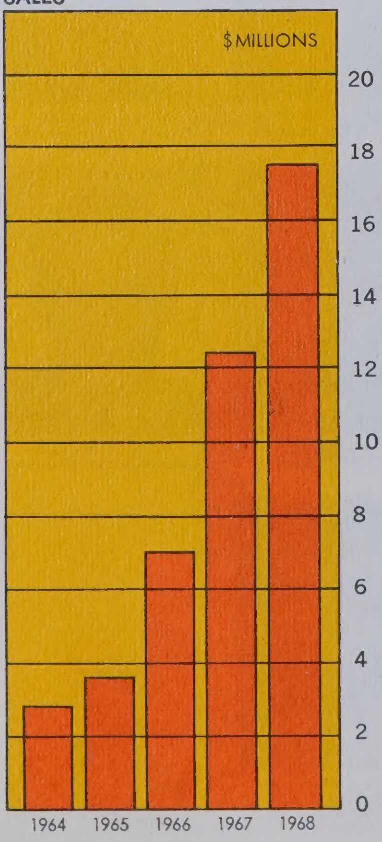
| | 1968 | 1967 | Change |
|---|---|---|---|
| Sales | $17,654,355 | $12,453,855 | + 42% |
| Earnings Before Taxes | $ 1,336,659 | $ 917,178 | + 46% |
| Provision For Income Taxes* | 695,000 | 481,300 | |
| Net Earnings | 641,659 | 468,324 | + 37% |
| Dividends On Preference Shares | 55,250 | 62,327 | |
| Earnings Available To Common Shareholders | 586,409 | 405,997 | |
| Per Share*** | .29 | .20 | + 45% |
| Cash Flow From Operations** | 2,374,762 | 1,726,137 | |
| Per Share | 1.16 | .84 | + 38% |
| Additions To Plant And Equipment | 7,372,722 | 3,224,369 | +129% |
| Total Assets At End Of Year | 27,051,643 | 17,856,057 | + 51% |

**No income taxes were payable in 1968, although full provision was made for taxes on a deferred basis. Only $1,300 was payable for the year 1967.*

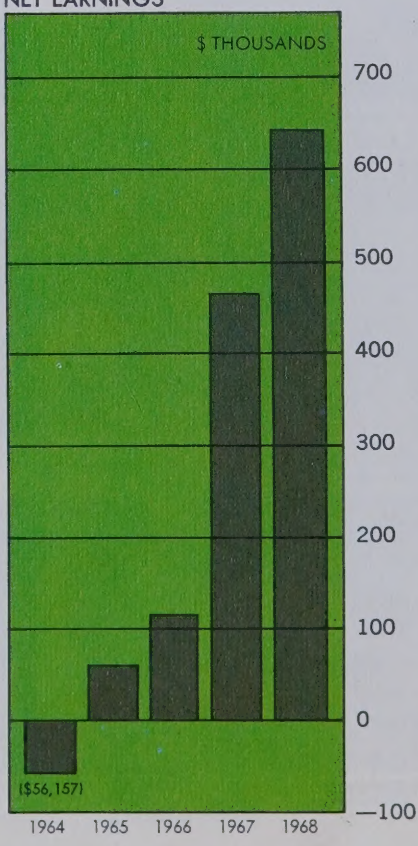
***Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.*

****Calculated on 2,050,063 common shares outstanding at 31 October, 1968. No account has been taken in this calculation of the conversion privileges attached to the preference shares and warrants for 250,000 common shares outstanding during the year which could have been, but were not, exercised. For particulars of this, and future potential dilution, see note 7 of the financial statements.*

SALES




NET EARNINGS



# President's Report

## To the Shareholders:

On behalf of the Board of Directors I am pleased to report on the operating results of your Company for the year ended October 31, 1968.

The year through which we have passed has indeed been a gratifying one in that new records have been attained in sales, net earnings and cash flow. These outstanding records were attained through the efforts of a dedicated management team despite continued pressures of rising costs and the absence of Expo which produced an unusually high volume of business in 1967.

### FINANCIAL

Sales for fiscal 1968 reached $17,654,355 an increase of $5,200,500 or 42% over 1967. Net reported earnings (after providing for deferred income taxes) were $641,659 or $.29 per common share (after preference share dividends) compared with $468,324 or $.20 per share in 1967. However, since no income taxes are payable for 1968, actual net earnings before this provision were $1,336,659 or $.63 per share, compared with $917,178 or $.42 per share in 1967.

Cash flow generated from operations amounted to $2,374,762 or $1.16 per share compared with $1,726,137 or $.84 per share in 1967. Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.

Since the close of the fiscal year, your Company reached an important milestone through the issuance and sale of common shares to the public which provided $3,783,000 in cash to further its expansion program and reduce debt. Also, commitments had been executed by the Company and by Morgan Guaranty Trust Company of New York as agent for certain institutional investors whereby the Company will be entitled to borrow $8,500,000 U.S. in mortgage funds on very favourable terms.

These two important events will do much to allow us to step up the pace of our growth and to meet our long term objectives for Canada, the Caribbean and the United Kingdom. The Company has also arranged for other mortgage commitments of approximately $4,000,000 and additional funds are being sought for new inns.

### THE HOLIDAY INN STORY

Commonwealth Holiday Inns of Canada Limited is part of the Holiday Inn family which comprises more than 1,050 inns for a total exceeding 135,000 rooms. The Holiday Inn system is by far the largest innkeeping operation in the world and is continuing to expand rapidly each year. Last year alone over 17,000 rooms were added to the North American group and Holiday Inns of America recently announced its objective of having 3,000 inns in the international system within the next ten years.

One of Commonwealth's most valuable assets lies in its link with the Holidex reservation system whereby each location in the Holiday Inn system is connected to every other inn through the world's largest private computer facility. Upon receiving reservation requests, the computer immediately confirms reservations or indicates alternate Holiday Inn accommodations, while automatically notifying the designated inn of such confirmations. Each inn, therefore, is in effect a reservation office for every other inn. This system, and the fact that Holiday Inns are of uniformly high design and construction standards, coupled with the growing reliance on good accommodation at a fair price, considerably strengthens the competitive position of the whole operation. This is further supported by long and short term marketing and advertising programs which present Holiday Inns to the widest potential market.

### OUTLOOK

As this report is written your Company has 20 inns in operation of which 17 are in Ontario, 2 in Michigan and 1 in the Caribbean, comprising a total of almost 3,000 rooms. By virtue of agreements negotiated with Holiday Inns of America, your company has acquired to date rights to a total of 65 franchises, making us, the largest member in the system other than Holiday Inns of America itself. The current expansion program calls for 17 more inns in Ontario, 13 in the Caribbean and 15 in the United Kingdom. When this phase of the program is completed your Company will be operating well over 10,000 rooms. At that time we will be in a favourable position to negotiate new agreements to further our expansion.

I particularly wish to call to your attention the two new inns of the Company in Antigua and Barbados. Antigua Holiday Inn is now open and the inn in Barbados will open early in March. These are splendid inns and I hope that as many shareholders as possible will take an early opportunity to visit one or both. The Caribbean now is always "in season".

Based on the first quarter results (highlights of which have already been mailed to you) and our forecast for the remainder of the year, every indication is that 1969 will significantly surpass the records achieved last year in sales and net earnings. These records will be achieved thanks to the devoted service of almost 2,000 men and women. I am proud of and grateful for their sincere and dedicated efforts. I am confident that our long term growth prospects will be equally rewarding to both the shareholders and to the employees of the Company.

February, 1969

# Commonwealth Holiday Inns of Canada Limited and its subsidiaries

(Incorporated under the laws of Ontario)

## Assets

| | 1968 | Pro forma 1968 | 1967 |
|---|---|---|---|
| **Current:** | | | |
| Cash and short term deposits | $ 1,300,000 | $ 1,741,938 | $ 117,824 |
| Accounts receivable less allowance for doubtful accounts of $50,000 in 1968 and $52,615 in 1967 | 983,546 | 983,546 | 617,388 |
| Inventories of beverages, food and supplies—at the lower of cost or market | 307,194 | 307,194 | 220,845 |
| Prepaid expenses and deposits | 330,029 | 330,029 | 238,391 |
| | 2,920,769 | 3,362,707 | 1,194,448 |
| **Fixed**—at cost (note 3): | | | |
| Land | 1,689,365 | 1,689,365 | 1,298,470 |
| Buildings and leasehold improvements | 12,389,193 | 12,389,193 | 9,672,557 |
| Furniture and equipment, roadways, sewers and swimming pools | 7,637,310 | 7,637,310 | 5,825,782 |
| | 21,715,868 | 21,715,868 | 16,796,809 |
| Less accumulated depreciation | 2,473,296 | 2,473,296 | 1,511,006 |
| | 19,242,572 | 19,242,572 | 15,285,803 |
| **Inns under construction**—at cost | 3,029,279 | 3,029,279 | 476,692 |
| **Deferred expenses** (note 4) | 1,258,566 | 1,258,566 | 634,722 |
| **Franchises**—Holiday Inns of America, Inc.—at cost | 600,457 | 600,457 | 264,392 |
| | $27,051,643 | $27,493,581 | $17,856,057 |

On behalf of the Board:

D. Rubinoff, Director

Albert E. Shepherd, Director

*The accompanying "Notes to the Consolidated Financial Statements" should be read together with this statement.*

# Consolidated Balance Sheet OCTOBER 31, 1968

(with Pro Forma Consolidated Balance Sheet at October 31, 1968 [note 12] and comparative amounts for 1967)

## Liabilities

| | | 1968 | Pro forma 1968 | 1967 |
|---|---|---|---|---|
| **Current:** | | | | |
| Due to bankers | | $ 38,247 | $ 38,247 | $ 636,809 |
| Accounts payable and accrued charges | | 1,421,865 | 1,421,865 | 1,079,246 |
| Taxes payable | | 99,970 | 99,970 | 54,799 |
| Long term debt instalments due within one year (note 5) | | 768,684 | 768,684 | 387,345 |
| | | 2,328,766 | 2,328,766 | 2,158,199 |
| **Long term debt** (note 5) | | 22,314,080 | 19,082,518 | 14,163,059 |
| Less instalments due within one year | | 768,684 | 768,684 | 387,345 |
| | | 21,545,396 | 18,313,834 | 13,775,714 |
| **Deferred income taxes** (note 6) | | 1,245,000 | 1,207,000 | 550,000 |
| **Shareholders' equity:** | | | | |
| Capital (note 7)— | | | | |
| Authorized: | | | | |
| 4,250 6½% cumulative redeemable convertible sinking fund preference shares with a par value of $200 each | 850,000 | | | |
| 7,000,000 common shares of no par value (4,000,000 shares in 1967) | | | | |
| Issued and fully paid: | | | | |
| 4,250 preference shares | | 850,000 | 850,000 | 850,000 |
| 2,050,063 common shares (2,050,000 shares in 1967) | | 20,500 | | 20,500 |
| Pro forma consolidated balance sheet—2,400,063 common shares (note 12) | | | 3,804,000 | |
| | | 870,500 | 4,654,000 | 870,500 |
| Consolidated retained earnings (notes 8 and 12) | | 1,061,981 | 989,981 | 501,644 |
| | | 1,932,481 | 5,643,981 | 1,372,144 |
| | | $27,051,643 | $27,493,581 | $17,856,057 |

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

# Consolidated Statement of Earnings

**YEAR ENDED OCTOBER 31, 1968** (with comparative amounts for 1967)

| | 1968 | 1967 |
|---|---|---|
| Sales | $17,654,355 | $12,453,855 |
| Earnings from operations before charges as set out below | $ 3,490,899 | $ 2,717,286 |
| Depreciation (note 3) | 863,366 | 668,488 |
| Amortization of borrowing costs (note 4) | 42,668 | 35,668 |
| Amortization of deferred opening expenses (note 4) | 119,339 | 73,657 |
| Amortization of deferred renovations (note 4) | 12,730 | |
| Interest on long term debt | 1,116,137 | 1,022,295 |
| | 2,154,240 | 1,800,108 |
| Earnings for year before taxes on income and minority shareholders' interest | 1,336,659 | 917,178 |
| Taxes on income—current | | 1,300 |
| —deferred (note 6) | 695,000 | 480,000 |
| | 695,000 | 481,300 |
| Earnings for year before minority interest | 641,659 | 435,878 |
| Minority interest in the loss of a subsidiary company | | 32,446 |
| Consolidated net earnings for year | $ 641,659 | $ 468,324 |

# Consolidated Statement of Retained Earnings

**YEAR ENDED OCTOBER 31, 1968** (with comparative amounts for 1967)

| | 1968 | 1967 |
|---|---|---|
| Balance beginning of year—as previously reported | $ 1,114,644 | $ 457,992 |
| Adjustments to reflect retroactive changes in accounting treatment: | | |
| Deferred tax accounting (note 6) | 613,000 | 133,000 |
| Depreciation rates applied in respect of prior years | | 180,115 |
| | 613,000 | 313,115 |
| Balance beginning of year—as restated | 501,644 | 144,877 |
| Add consolidated net earnings for year | 641,659 | 468,324 |
| | 1,143,303 | 613,201 |
| Deduct: | | |
| Dividends paid on preference shares | 55,250 | 62,327 |
| Write-off of incorporation expenses | 26,072 | |
| Excess of cost of interest in subsidiary company over value of net tangible assets acquired | | 49,230 |
| | 81,322 | 111,557 |
| Balance end of year | $ 1,061,981 | $ 501,644 |

*The accompanying "Notes to the Consolidated Financial Statements" should be read together with these statements.*

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

# Consolidated Statement of Source and Application of Funds

**YEAR ENDED OCTOBER 31, 1968** (with Pro Forma Consolidated Statement of Source and Application of Funds [note 12] and comparative amounts for 1967)

| | 1968 | Pro forma 1968 | 1967 |
|---|---|---|---|
| Working capital (deficit) beginning of year | $ (963,751) | $ (963,751) | $ (421,139) |
| Source of funds: | | | |
| Operations— | | | |
| Consisting of: | | | |
| Consolidated net earnings for year | 641,659 | 641,659 | 468,324 |
| Add— | | | |
| Deferred income taxes | 695,000 | 695,000 | 480,000 |
| Depreciation and amortization | 1,038,103 | 1,038,103 | 777,813 |
| | 2,374,762 | 2,374,762 | 1,726,137 |
| Mortgages and bank loans (net of amounts repaid from proceeds) | 8,772,879 | 8,772,879 | 2,145,198 |
| Other | | | 10,200 |
| Pro forma (note 12)— | | | |
| Issuance and sale to underwriters of 350,000 common shares | | 3,783,500 | |
| | 11,147,641 | 14,931,141 | 3,881,535 |
| Application of funds: | | | |
| Purchase of fixed assets | 7,372,722 | 7,372,722 | 3,224,369 |
| Deferred expenses | 824,653 | 824,653 | 290,353 |
| Franchises | 336,065 | 336,065 | 109,373 |
| Reduction of long term debt | 1,003,197 | 1,003,197 | 483,034 |
| Dividends paid on preference shares | 55,250 | 55,250 | 62,327 |
| Purchase of minority shareholder's interest in a subsidiary | | | 254,691 |
| Pro forma (note 12)— | | | |
| Reduction of long term debt | | 3,231,562 | |
| Expenses of share issue | | 110,000 | |
| | 9,591,887 | 12,933,449 | 4,424,147 |
| Working capital (deficit) end of year | $ 592,003 | $ 1,033,941 | $ (963,751) |

*The accompanying "Notes to the Consolidated Financial Statements" should be read together with this statement.*

# Auditors' Report

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited and its subsidiaries as at October 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds and the pro forma consolidated statement of source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) The accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and application of funds present fairly the financial position of the companies as at October 31, 1968 and the results of their operations and the source and application of their funds for the year then ended;

(b) The accompanying pro forma consolidated balance sheet and pro forma consolidated statement of source and application of funds present fairly the financial position of the companies as at October 31, 1968 and the source and application of their funds for the year then ended after giving effect to the changes set forth in note 12;

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes in the method of providing for depreciation as set out in note 3 and of providing for taxes on income as set out in note 6, which changes we approve.

London, Canada.
January 23, 1969.

CLARKSON, GORDON & CO.
Chartered Accountants.

# Notes to the Consolidated Financial Statements — October 31, 1968

## 1. Amalgamation and change of name

On November 1, 1967 the company obtained letters patent of amalgamation merging the company and all of its wholly owned subsidiaries under the name Allied Innkeepers Limited. By supplementary letters patent dated September 20, 1968 the name of the amalgamated company was changed to Commonwealth Holiday Inns of Canada Limited.

## 2. Principles of consolidation

The consolidated balance sheet as at October 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended include the accounts of the amalgamated company and of its wholly owned subsidiaries which were incorporated during 1968, Associated Innkeepers Supplies Limited and Allied Innkeepers (Bermuda) Limited, both of which are inactive companies.

The comparative amounts for 1967 shown in the consolidated financial statements include the accounts of the predecessor company and of all of its subsidiaries at that time all of which were amalgamated with the former parent company as referred to in note 1.

## 3. Fixed assets

A major portion of the real estate and furniture and equipment is pledged to secure mortgages and other long term debt.

For accounting purposes depreciation is computed on a straight-line basis at the following annual rates:

| | |
|---|---|
| Buildings and leasehold improvements | 2½% |
| Roadways, sewers and swimming pools | 4 % |
| Furniture and equipment | 9 % |

During the latter part of 1968 (subsequent to July 31, 1968) the company changed its policy with respect to the rate of depreciation provided on furniture and equipment. For 1968, depreciation in respect of such assets has been provided for the entire year at 9% compared to rates varying from 2½% to 20% for 1967. The effect of this change is not significant.

## 4. Deferred expenses

These consist of:

| | |
|---|---|
| Deferred opening expenses | $ 872,200 |
| Deferred cost of borrowing | 119,131 |
| Deferred cost of renovations | 267,235 |
| | $1,258,566 |

(a) Deferred opening expenses—

The company follows the practice of deferring all opening expenses incurred by each new Inn until operations are commenced and amortizes these expenses over the first sixty months of operation.

Of the total opening expenses of $1,187,694 deferred since the adoption of this practice, $315,494 has been charged to the operations of subsequent periods and the unamortized balance as at October 31, 1968 is $872,200.

(b) Deferred cost of borrowing—

The company follows the practice of deferring commissions, discounts, legal and other expenses incurred in connection with the issue of debentures, preference shares and mortgages and of amortizing such amounts by charges against operations over the terms of the respective issues.

Of the total borrowing costs of $257,669 deferred since the adoption of this practice, $138,538 has been charged to the operations of subsequent periods and the unamortized balance as at October 31, 1968 is $119,131.

(c) Deferred cost of renovations—

During 1968 the company, for the first time, undertook major renovation programs for certain of its Inns and in respect thereof adopted the practice of deferring all such costs and of amortizing such amounts over the first sixty months commencing with the second month following the completion of the program for each Inn.

Of the total renovation costs of $279,965 deferred since the adoption of this practice, $12,730 has been charged to operations in 1968 and the unamortized balance as at October 31, 1968 is $267,235.

## 5. Long term debt

Long term debt outstanding at October 31, 1968 consists of:

| | Amount | Due within one year |
|---|---|---|
| (a) Real estate mortgages payable: | | |
| 7%-10% first mortgages due on various dates from 1970 to 1987 | $10,104,630 | $257,251 |
| 4%-12% second mortgages due on various dates from 1969 to 1973 | 1,509,238 | 135,691 |
| | 11,613,868 | 392,942 |
| (b) Chattel mortgages payable: | | |
| 11% and 12% chattel mortgages due on various dates from 1970 to 1973 | 2,423,263 | 392,928 |
| Less deferred interest included therein | 582,498 | 194,755 |
| | 1,840,765 | 198,173 |
| Sundry lien notes due in varying amounts to 1970 (after deducting deferred interest included therein) | 42,260 | 27,275 |
| | 1,883,025 | 225,448 |
| (c) Sinking fund debentures payable: | | |
| 7½% Senior debentures maturing December 1, 1979 (sinking fund payment of $50,000 in 1969 and 1970, $75,000 in 1971 and 1972, $100,000 in each of the years 1973 to 1979 and $50,000 on maturity) | 1,000,000 | 50,000 |
| 7% Series "A" subordinated debentures maturing June 30, 1974 (sinking fund payments of $200,000 in each of the years 1970 to 1973 and $200,000 on maturity) | 1,000,000 | |
| 6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of $40,000 in each of the years 1975 to 1978 and $40,000 on maturity) | 200,000 | |
| | 2,200,000 | 50,000 |
| (d) Due to bankers: | | |
| To be repaid from proceeds of issue of common shares subsequent to year end (note 12) | 3,231,562 | |
| To be repaid by November 1, 1969 from proceeds of committed mortgage loan (present loan secured by a first charge on certain property and improvements) | 1,500,000 | |
| To be repaid in monthly instalments of principal and interest of $17,967 (secured by a 8½% first mortgage and first floating charge debenture on certain property) | 1,293,000 | 100,294 |
| | 6,024,562 | 100,294 |
| (e) 8% debenture due September 20, 1971 | 592,625 | |
| Total long term debt at October 31, 1968 | 22,314,080 | 768,684 |
| Repayment subsequent to year end from proceeds of issue of common shares (note 12) | 3,231,562 | |
| Long term debt as shown on pro forma consolidated balance sheet | $19,082,518 | $768,684 |

## 6. Deferred income taxes

For income tax purposes the company and its subsidiaries (including the predecessor subsidiaries) claim capital cost allowances, opening expenses, costs of borrowing and renovation costs in excess of depreciation and amortization charged against earnings. Prior to November 1, 1967 the income tax reductions resulting from this practice were reflected in earnings by way of a reduction in the provisions for taxes on income. As of November 1, 1967 the company changed the basis of accounting for such income tax reductions. These reductions are now deferred and will be brought into earnings in those future years when depreciation and amortization charged against earnings are greater than the amounts allowable for tax purposes. Income tax reductions which arose prior to November 1, 1967 and which had been reflected previously in consolidated earnings have been adjusted by a charge to consolidated retained earnings and are now shown as "deferred income taxes" in the accounts of the company. The comparative figures for 1967 shown in the consolidated financial statements have been restated to reflect this change.

Deferred income taxes of $1,245,000 represents reductions in taxes payable as a result of claiming for tax purposes:

| | |
|---|---|
| (a) Capital cost allowances in excess of the amount of depreciation charged against earnings | $ 716,000 |
| (b) Allowable portion of various deferred expenses in excess of the amount of amortization charged against earnings | 529,000 |
| Deferred income taxes at October 31, 1968 | 1,245,000 |
| Reduction as a result of claiming for tax purposes the allowable portion of expenses incurred on issue of common shares (note 12) | 38,000 |
| Deferred income taxes as shown on pro forma consolidated balance sheet | $1,207,000 |

## 7. Capital

Supplementary letters patent were obtained on May 21, 1968 converting the company to a public company and increasing the authorized common share capital to 6,500,000 shares. Supplementary letters patent dated September 20, 1968 further increased authorized common share capital to 7,000,000 shares.

The 4,250 authorized and issued 6½% cumulative redeemable convertible sinking fund preference shares with a par value of $200 each may be purchased for cancellation at any time if obtainable or are redeemable on or after May 15, 1976 at $214 per share until May 15, 1983 and $207 per share thereafter, provided that the tangible junior capital (as defined in the trust indentures) immediately after such redemption is not less than $1,750,000. Prior to May 15, 1976 preference shares may be redeemed at $214 per share provided the book value of the common shares at the time of redemption is not less than 250% of the par value of the preference shares. As long as any preference shares are outstanding the company is required in each year commencing May 15, 1971 to set aside in a sinking fund to be used for the redemption of the preference shares an amount equal to 5% of the par value of the issued preference shares.

As a result of the amalgamation on November 1, 1967 the outstanding common shares were increased by 63 representing shares issued without additional consideration in exchange for qualifying shares held by directors of the predecessor subsidiary companies (see note 1).

Subsequent to October 31, 1968 the company issued and sold 350,000 common shares to underwriters for $3,783,500 cash (see also note 12 relating to pro forma consolidated balance sheet).

As at October 31, 1968, additional common shares are reserved as follows:

| | |
|---|---|
| (a) For issuance under conversion privileges attached to preference shares | 425,000 |
| (b) For issuance at $2 per share under share purchase warrants expiring June 30, 1978 issued to holders of the 7½% senior debentures | 250,000 |
| (c) For issuance to employees at $10.50 per share | 20,000 |
| (d) For issuance at $3 U.S. per share under share purchase warrants expiring November 1, 1978 issued to Holiday Inns of America, Inc. | *3,254,937 |
| | 3,949,937 |

*NOTE: Under the provisions of these warrants, if prior to November 1, 1978 the company should have common shares outstanding or reserved for the exercise of warrants or options granted or for conversion privileges in the aggregate greater than 6,500,000 shares, then the company is required to grant to this warrant holder additional warrants to purchase common shares without further consideration so that the warrant holder will hold or have exercised warrants for the purchase of common shares equal to 50.075 percent of the total common shares outstanding or reserved. The warrant holder concerned has waived its right to receive warrants for the purchase of 50,026 additional common shares without consideration to which it would otherwise become entitled if the company should issue the additional share purchase warrants referred to in the following paragraph and has agreed to accept instead warrants for the purchase of 50,026 common shares at $8 per common share.

In addition, if the company borrows the $8,500,000 in respect of which commitment letters have been executed (as set out in note 9) then at the time that the monies are received the company has agreed to issue to the lenders additional warrants expiring 15 years after issue for the purchase of 200,000 common shares at $8 per share and will also be required to issue similar warrants for the purchase of 50,026 common shares to the warrant holder as referred to in the preceding paragraph.

## 8. Restriction on payment of dividends, etc.

The company has covenanted in the trust indentures securing its sinking fund debentures not to declare any dividends on any of its shares (other than stock dividends) and not to redeem or retire any class of its capital stock or to make any other distribution to shareholders unless after giving effect to such action the sum of the amounts declared as dividends subsequent to March 31, 1966 plus the amounts applied by the company and its subsidiaries subsequent to March 31, 1966 to redeem shares (after crediting against such amount the proceeds of any sale of shares made substantially concurrently therewith) will not be in excess of consolidated net earnings (as defined in the trust indentures) of the company and its subsidiaries for the period from March 31, 1966 to the date of such payment. Also, the company may not declare any dividends if the tangible junior capital (as defined in the trust indentures) is less than $1,750,000.

As at October 31, 1968 the whole of the consolidated retained earnings of $1,061,981 was restricted with respect to the payment of dividends, but after the issue and sale of 350,000 common shares as given effect to in the pro forma consolidated balance sheet, no part of the consolidated retained earnings will be so restricted.

## 9. Capital expenditures

The cost of the building program to which the company is currently committed for the year ended October 31, 1969 has been estimated at $8,623,000 as follows:

| | |
|---|---|
| Cost to complete Inn under construction including furniture and equipment (Flemingdon Park, Toronto) | $3,230,000 |
| Cost to complete renovation of new Inn (Antigua) | 470,000 |
| Cost of furniture and equipment for a leased Inn (Barbados) | 325,000 |
| Site purchases (Caribbean) | 248,000 |
| Cost of land, buildings, furniture and equipment for two new Inns (Hespeler and St. Lucia) | 3,820,000 |
| Addition to an existing Inn (Toronto East) | 530,000 |
| | $8,623,000 |

As at October 31, 1968 contracts have not been entered into with respect to certain items in the above program.

No liability in connection with the above capital expenditures has been reflected in the consolidated balance sheet.

At October 31, 1968 amounts not drawn under firm mortgage commitments obtained for certain of these properties amounted to $2,250,000. In addition the company has executed commitment letters with agents for certain institutional lenders under which these lenders have agreed to loan $8,500,000 U.S. secured by first or second mortgages against new Inns to be built or existing Inns to be expanded.

Included in franchise payments made by the company during the year is a deposit of $250,000 U.S. paid to Holiday Inns of America, Inc. on account of franchise fees totalling $310,000 U.S. for 31 additional Inns in Ontario, the Caribbean and Great Britain. The balance of $60,000 U.S. of said franchise fees has not been provided for in the consolidated financial statements at October 31, 1968.

### 10. Long term leases and fees

The company has entered into agreements to lease properties to be operated as Inns for periods varying from 10 to 66 years at total minimum rentals for the remaining terms of the leases of approximately $35,000,000. Total minimum fixed rentals per year as at October 31, 1968 approximate $1,700,000. In the case of certain leases, increased rentals may be payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns of America, Inc. the company is required to pay royalties and other fees which currently amount to approximately $425,000 annually. It has also entered into miscellaneous equipment leases which require annual rental payments of approximately $240,000.

### 11. Executive remuneration

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers amounted to $170,149 for the year ended October 31, 1968 ($90,824 in 1967). The company has not paid any fees to its directors as such.

### 12. Pro forma consolidated balance sheet and statement of source and application of funds

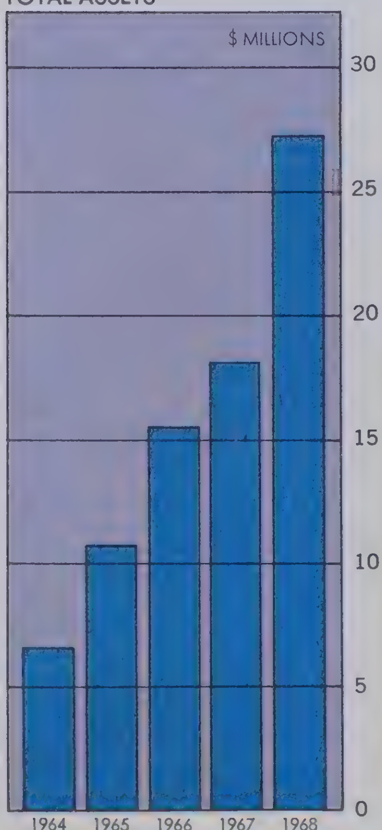
The pro forma consolidated balance sheet and pro forma consolidated statement of source and application of funds is shown in the consolidated financial statements for comparative purposes and gives effect to the following:

(a) Issuance and sale to underwriters of 350,000 common shares for $3,783,500;

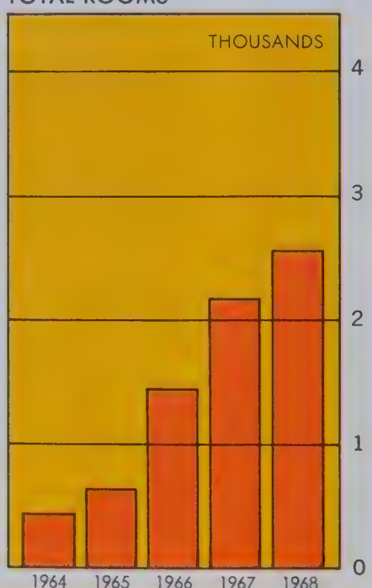
(b) Payment of the company's share of expenses in connection with the issue estimated at $72,000 (net of reduction in income taxes of $38,000 applicable thereto). Expenses include, among others, transfer fees under the Liquor Licence Act of Ontario estimated at $35,000. The net cost of $72,000 has been written off against consolidated retained earnings in the attached pro forma consolidated balance sheet;

(c) Application of $3,231,562 of the net proceeds of the share issue to the reduction of bank indebtedness included with long term debt, and the addition of the balance of $441,938 to the company's cash resources.

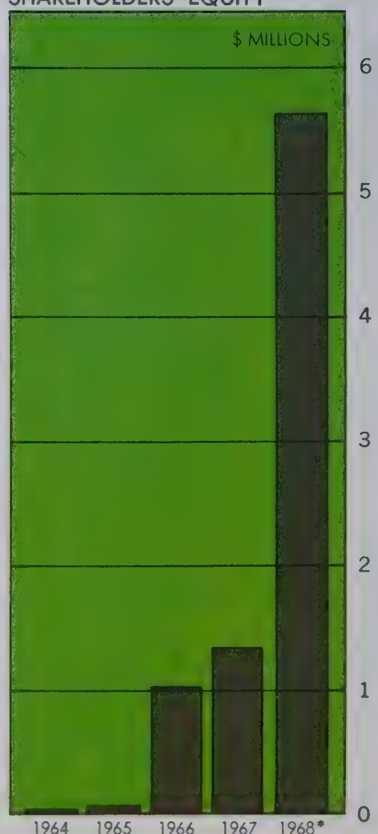
TOTAL ASSETS




TOTAL ROOMS




SHAREHOLDERS' EQUITY




*After giving effect, as of December 16, 1968, to issuance and sale to underwriters of 350,000 common shares for $3,783,500.

# Five-year Financial Review

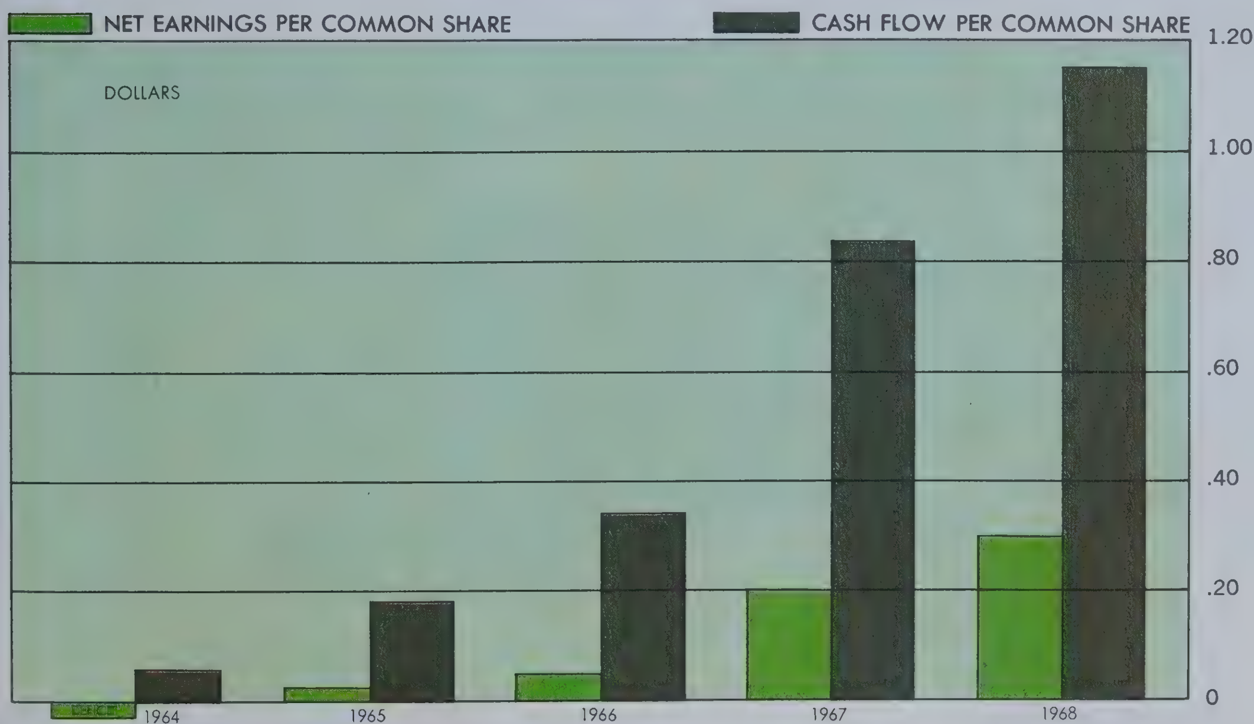
| RESULTS FOR THE YEAR | 1968 | 1967 | 1966 | 1965 | 1964 |
|---|---|---|---|---|---|
| Sales | $17,654,355 | $12,453,855 | $ 7,062,421 | $ 3,567,315 | $ 2,650,583 |
| Earnings Before Taxes on Income | 1,336,659 | 917,178 | 226,704 | 105,731 | (113,057) |
| Provision for Income Taxes | 695,000 | 481,300 | 122,000 | 55,000 | (56,900) |
| Net Earnings for the Year* | 586,409 | 405,997 | 112,243 | 50,731 | (56,157) |
| Per Common Share* | .29 | .20 | .05 | .03 | — |
| Cash Flow from Operations** | 2,374,762 | 1,726,137 | 691,114 | 383,797 | 145,634 |
| Per Common Share | 1.16 | .84 | .34 | .19 | .07 |
| Depreciation and Amortization | 1,038,103 | 777,813 | 477,871 | 277,066 | 270,791 |
| Capital Outlays | 7,372,722 | 3,224,369 | 5053,238 | 3,081,018 | 550,000 |
| **YEAR END POSITION** | | | | | |
| Working Capital | $ 1,033,941*** | $ (963,751) | $ (421,139) | $ (1,447,018) | $ (2,052,035) |
| Fixed Assets at Cost**** | 24,745,147 | 17,273,501 | 13,967,198 | 8,965,283 | 6,009,336 |
| Total Assets | 27,493,581*** | 17,856,057 | 15,596,668 | 10,501,956 | 6,729,488 |
| Long Term Debt | 18,313,834*** | 13,775,714 | 12,113,550 | 7,462,051 | 3,895,668 |
| Shareholders' Equity | 5,643,981*** | 1,372,144 | 1,015,377 | 52,634 | 1,903 |
| **GENERAL STATISTICS** | | | | | |
| Preference Shares Outstanding | 4,250 | 4,250 | 4,250 | — | — |
| Common Shares Outstanding | 2,050,063 | 2,050,000 | 2,050,000 | 2,000,000 | 2,000,000 |
| Inns in Operation | 17 | 14 | 10 | 5 | 3 |
| Rooms in Operation | 2,558 | 2,166 | 1,441 | 639 | 440 |

**After dividends on preference shares.*

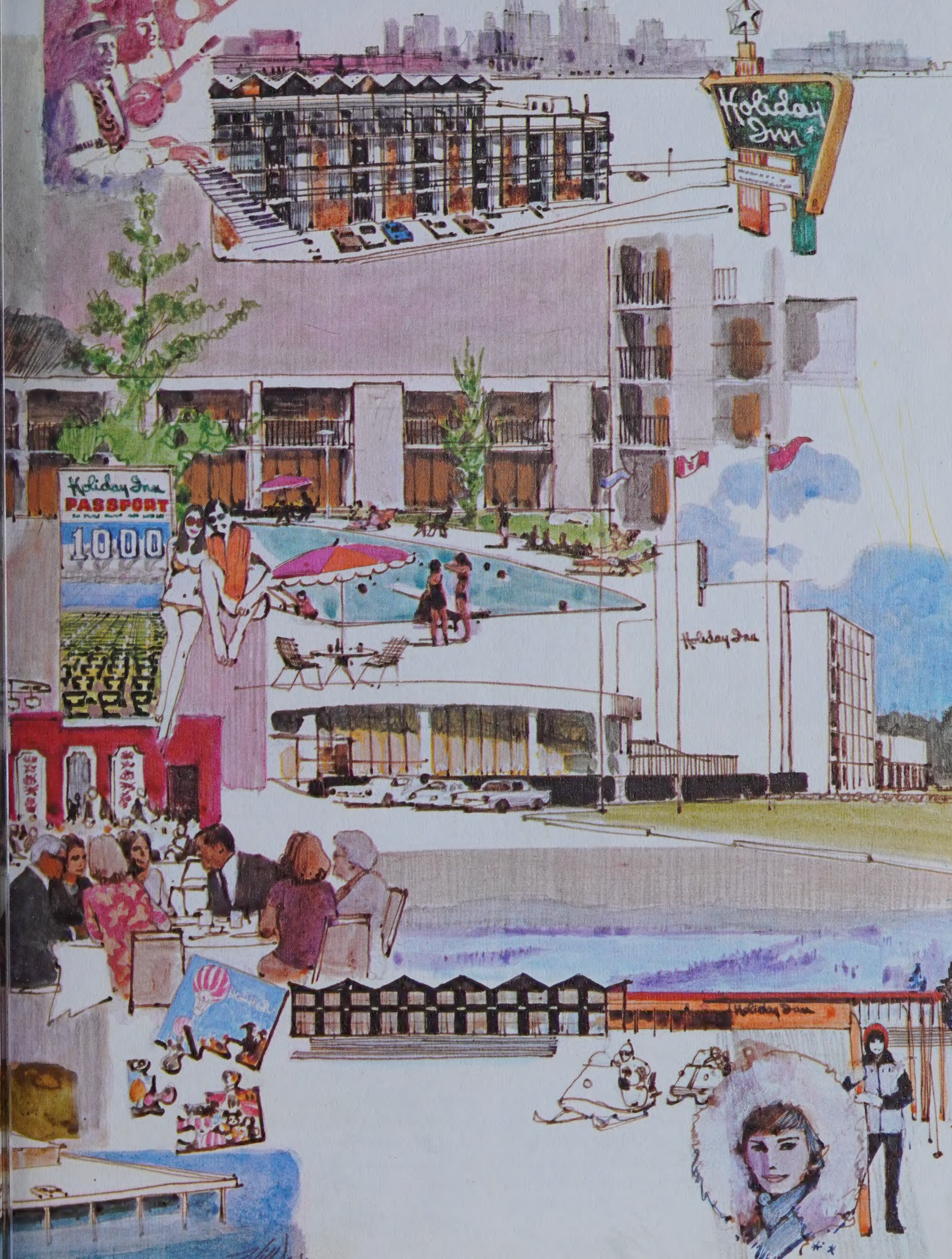
***Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.*

****After giving effect to issuance and sale to underwriters of 350,000 common shares, December 16, 1968.*

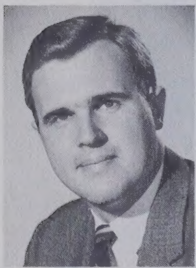
*****Includes construction in progress.*




Holiday Inn
GULF OIL CANADA


Holiday Inn
Holiday Inn
PASSPORT
1000
Holiday Inn
Holiday Inn

# Innkeepers



ERIC KEENE
Barrie

ANDREW EDGEWORTH
Brantford

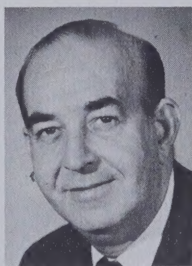
ROGER CROXALL
Chatham

ANTHONY MIELE
Fort William

LEWIS BLUM
Hamilton

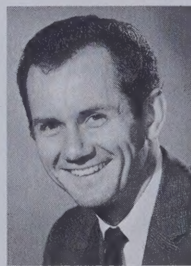
SPENCER BROWN
Huntsville

GERRARD G. LEYENDECKERS
Kingston



LLOYD G. FOSTER
Kitchener

ISAAC SISKIND
London Downtown



BERT M. BORNHOEFT
London South

PETER VANDENBERG
Oakville

CLAUDE LEFEBVRE
Ottawa

JOHN THOMPSON
Peterborough

ROBERT B. BECKER
St. Catharines

JOSEPH SLOMKA
Toronto East

ANDRE ROUSSEAU
Toronto West

RAYMOND T. DOMENICO
Windsor

ROGER MCKEE
Pontiac, Mich.

HAROLD LEVIN
Port Huron, Mich.

THOMAS R. NOONAN
Barbados

MRS. MONICA ANDERSEN
Innkeeper at large

DOUGLAS F. HENDRY
Innkeeper at large

MRS. EVELYN DEGROW
Executive Housekeeper

EDWARD SCHWANNECKE
Marmora Beach
Antigua

## Associated Innkeepers Supply Company

This Company is actively engaged, through its Contract Sales Department, in the design and equipping of hotels, apartments, hospitals, commercial and public buildings in addition to providing similar services to Holiday Inns operated by your Company. This field has great potential, and the services offered by it are backed by the purchasing power and design experience acquired through extensive operations in Ontario, the United Kingdom and the Caribbean. Associated Innkeepers Supply Company is a division of Commonwealth Holiday Inns of Canada Limited with offices at 140 Kendal Avenue, Toronto 4, Ontario.


# Inns in the Caribbean

▲ OPEN
- Barbados (March, 1969)
- Antigua

● UNDER CONSTRUCTION
- St. Lucia
- Grenada

□ PLANNED
- Georgetown, Guyana
- Trinidad
- Tobago
- Barbados, Airport
- Martinique
- Guadeloupe
- Montserrat
- St. Kitts
- St. Croix (2)


# Inns in the U.K.

□ PLANNED
- London
- Slough
- Plymouth
- Bristol

Your Company has acquired rights to build 15 Holiday Inns in the U.K.

Toronto Downtown Holiday Inn next to the new City Hall.